

CITY OF MONROE, IOWA

Independent Auditors' Report  
Basic Financial Statements and  
Supplemental Information and Findings

June 30, 2006

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City of Monroe, Iowa

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Douglas P. Van Baale	Mayor	January 2008
John Vriezelaar	Mayor Pro Tem	January 2010
Brian Briles	Council Member	January 2008
Kathleen Van Veen	Council Member	January 2008
Gerald Malone	Council Member	January 2010
David Pendroy	Council Member	January 2010
Carol Ann Diekema	City Coordinator	Indefinite
Kim Thomas	City Clerk	Indefinite
Caldwell, Caldwell & Caldwell	City Attorney	Indefinite

# **POLLARD AND COMPANY P.C.**

## **CERTIFIED PUBLIC ACCOUNTANTS**

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IOWA SOCIETY OF  
CERTIFIED PUBLIC ACCOUNTANTS

### **INDEPENDENT AUDITORS' REPORT**

To the Honorable Mayor and Members of the City Council  
City of Monroe

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Monroe, Iowa, as of and for the year ended June 30, 2006, which collectively comprise the City's basic financial statements listed in the table of contents. These financial statements are the responsibility of the City of Monroe's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States. Those standards and provisions require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Monroe as of June 30, 2006, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

As described in Note 12, during the year ended June 30, 2006, the City adopted Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments; Statement No. 37, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus; Statement No. 38, Certain Financial Statement Note Disclosures; and Statement No. 41, Budgetary Comparison Schedule – Perspective Differences.

In accordance with Government Auditing Standards, we have also issued our reports as dated below on our consideration of the City of Monroe's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. Those reports are an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

The Management's Discussion and Analysis and the Budgetary Comparison information are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We applied limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. We did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the City of Monroe's basic financial statements. Other supplementary information included in Schedules 1 through 3 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects, in relation to the basic financial statements taken as a whole.

August 3, 2006

*Pollard and Company P.C.*

## MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of Monroe provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2006. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

### 2006 FINANCIAL HIGHLIGHTS

Receipts of the City's governmental activities increased approximately \$412,846 from fiscal 2005 to 2006.

Disbursements of the City's governmental activities increased \$562,060 in fiscal 2006 from fiscal 2005.

Public Safety and Capital Projects disbursements increased approximately \$50,575 and \$551,045, respectively.

The City's Governmental Total Cash Basis Net Assets decreased by \$103,697.

Business Type Total Cash Basis Net Assets decreased by \$87,656.

### USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements as well as other requirements as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the government's financial activities.

The Government-wide Financial Statements consist of a Statement of Activities and Changes in Net Assets. This statement provides information about the activities of the City as a whole and presents an overall view of the City's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report the City's operations in more detail than the government-wide statement by providing information about the most significant funds.

Notes to financial statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the City's budget for the year.

Other Supplementary Information provides detailed information about the nonmajor governmental and proprietary funds.

### Basis of Accounting

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles (GAAP). The City does not report capital assets or depreciation on its assets as would be required by GAAP. Therefore, when reviewing the financial information and discussion within this annual report, the reader should keep in mind the limitations resulting from the use of a cash basis of accounting.

## REPORTING THE CITY'S FINANCIAL ACTIVITIES

### Government-wide Financial Statement

One of the most important questions asked about the City's finances is, "Is the City as a whole better off or worse off as a result of the year's activities?" The Statement of Activities and Net Assets reports information which helps answer this question.

The Statement of Activities and Net Assets presents the City's net assets. Over time, increases or decreases in the City's net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Statement of Activities and Net Assets is divided into two kinds of activities:

- Governmental Activities include public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service and capital projects. Property tax and state and federal grants finance most of these activities.
- Business Type Activities include the waterworks and sanitary sewer system. These activities are financed primarily by user charges.

### Fund Financial Statements

The City has two kinds of funds:

1. Governmental funds account for most of the City's basic services. They focus on how money flows into and out of those funds and the balances at year-end that are available for spending. Governmental funds include: 1) the General Fund, 2) the Special Revenue Funds, such as Employee Benefits, Road Use Tax and Urban Renewal Tax Increment, 3) the Debt Service Fund, 4) the Capital Projects Fund, and 5) the Permanent Fund. The government fund statements provide a detailed short-term view of the City's general government operation and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

The required financial statement for governmental funds is a statement of cash receipts, disbursements and changes in cash balances.

2. Proprietary funds account for the City's Enterprise Funds. Enterprise Funds are used to report business-type activities. The City maintains two Enterprise Funds to provide separate information for the water and sewer funds, considered to be major funds of the City.

The required financial statement for proprietary funds is a statement of cash receipts, disbursements and changes in cash balances.

Reconciliation between the government-wide statement and the fund financial statements follow the fund financial statements.

## GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of financial position. The analysis that follows focuses on the changes in cash balances for governmental activities. Comparative information is limited because the year ended June 30, 2005 was not presented in the GASB 34 format.

### Changes in Cash Basis Net Assets of Governmental Activities Year ended June 30, 2006

#### Receipts

Program receipts	
Charges for services	\$ 125,043
Operating grants, contributions and restricted interest	174,003
General receipts	
Property tax	324,077
Tax increment financing	247,939
Unrestricted investment earnings	19,242
Miscellaneous	34,768
Bond proceeds and transfers	<u>450,000</u>
Total Receipts	1,375,072

#### Disbursements

Public safety	292,276
Public works	212,978
Health and social services	906
Culture and recreation	86,790
Community and economic development	8,983
General government	99,976
Debt service	225,815
Capital projects	<u>551,045</u>
Total Disbursements	1,478,769
 (Decrease) in cash basis net assets	 (103,697)
 Cash basis net assets beginning of year	 606,619
 Cash basis net assets end of year	 \$ 502,922

The City's total receipts for governmental activities were \$1,375,072 for June 30, 2006 compared to \$962,226 for June 30, 2005. The cost of all governmental activities was \$1,478,769 for June 30, 2006, compared to \$916,736 for June 30, 2005.



Changes in Cash Basis Net Assets of Business Type Activities  
Year ended June 30, 2006

Receipts		
Program receipts		
Charges for services:		
Water	166,081	
Sewer	<u>131,588</u>	
Total receipts	297,669	
Disbursements		
Water	247,598	
Sewer	<u>137,727</u>	
Total disbursements	385,325	
(Decrease) in cash balance	( 87,656)	
Cash basis net assets beginning of year	226,019	
Cash basis net assets end of year	138,363	

Total business type activities receipts for the fiscal year were \$297,669 compared to \$305,433 last year. Total disbursements for the fiscal year were \$385,325 compared to \$340,320 last year.

#### INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Monroe completed the year, its governmental funds reported a combined fund balance of \$502,922, a decrease of \$103,697 from last year's total of \$606,619. The following are major reasons for the changes in fund balances of the major funds from the prior year.

- The General Fund cash balance decreased \$62,173 from the prior year to \$66,854. The decrease was due to disbursements for the City's governmental functions exceeding property tax and other receipts.
- The Road Use Tax Fund cash balance increased by \$38,461 to \$254,003 during the fiscal year. The City intends to use this money to upgrade the condition of all city roads.
- The Meadows Capital Project fund was established in the current fiscal year to account for a major project within the City. At the end of the fiscal year, the cash balance was a deficit of \$96,268 due to disbursements being made before proceeds of the bond issue were received.

#### BUDGETARY HIGHLIGHTS

In accordance with the Code of Iowa, the City Council annually adopted its budget in March 2005, following required public notice. The City amended its budget in May, 2006 to provide for financing and disbursements for capital projects.

#### DEBT ADMINISTRATION

As of June 30, 2006 the City had \$1,080,800 in general obligation bonds compared to approximately \$814,005 at June 30, 2005. The City had revenue bonds totaling \$609,577 at June 30, 2006 as compared to \$641,745 at June 30, 2005.

The Constitution of the State of Iowa limits the amount of the general obligation debt cities can issue to 5% of the assessed value of all taxable property within the City's corporate limits. The City's outstanding general obligation debt of \$1,080,800 is significantly below the constitutional debt limit of \$3,211,377. Although the city's general obligation bonds are counted in the constitutional debt limit, they are all paid by tax increment funds.

### ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

It is becoming increasingly difficult to maintain the current tax rate. The state roll back of taxable valuation on residential property continues to erode the tax base. Fortunately the City has seen an increase in properties, but with the added houses, there is also an increase in costs of operation. Fifty percent of the local option tax, effective July 1, 2006, will be used for property tax relief.

Costs are increasing for Public Safety. Training is a very important tool for the Police and Fire Department, but it is expensive. All new hires or volunteers must have physicals before they can be hired or volunteer for the City. The City has upgraded the Ambulance Driver to Paramedic status and that requires extra training and supplies for the ambulance. The department has two ambulances to furnish with equipment.

The State is planning to impose new standards on water quality that will result in upgrades for Monroe's east and west lagoon systems. Although, the upgrades may not have to be done immediately, the City must begin planning for the improvements. The City of Monroe plans to use fifty percent of Local Option Tax funds to begin replacing and upgrading water and sewer lines in the city.

### CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have a question about this report or need additional financial information, contact: Carol Ann Diekema, City Coordinator, 206 W Sherman, Box 370, Monroe, IA 50170.

City of Monroe, Iowa  
Statement of Activities and Net Assets – Cash Basis  
As of and for the year ended June 30, 2006

	Program Receipts			Net (Disbursements) Receipts and Changes in Cash Basis Net Assets		
	Disbursements	Charges for Services	Contributions, and Restricted Interest	Governmental Activities	Business Type Activities	Total
Functions/Programs						
Governmental Activities						
Public safety	\$ 292,276	\$ 31,846	\$ 20,133	\$ (240,297)		\$ (240,297)
Public works	212,978	91,137	151,376	29,535		29,535
Health and social services	906			(906)		(906)
Culture and recreation	86,790		2,494	(84,296)		(84,296)
Community and economic development	8,983			(8,983)		(8,983)
General government	99,976	2,060		(97,916)		(97,916)
Debt service	225,815			(225,815)		(225,815)
Capital projects	551,045			(551,045)		(551,045)
Total governmental activities	1,478,769	125,043	174,003	(1,179,723)	-	(1,179,723)
Business type activities						
Water	247,598	166,081			(81,517)	(81,517)
Sewer	137,727	131,588			(6,139)	(6,139)
Total business type activities	385,325	297,669	-	-	(87,656)	(87,656)
Total	\$ 1,864,094	\$ 422,712	\$ 174,003	\$ (1,179,723)	\$ (87,656)	\$ (1,267,379)
General Receipts						
Property tax levied for						
General purposes				323,674		323,674
Tax increment financing				247,939		247,939
Debt service				403		403
Unrestricted interest on investments				19,242		19,242
Bond proceeds				450,000		450,000
Miscellaneous				34,768		34,768
Total general receipts and transfers				1,076,026	-	1,076,026
Change in cash basis net assets				(103,697)	(87,656)	(191,353)
Cash basis net assets beginning of year				606,619	226,019	832,638
Cash basis net assets end of year				\$ 502,922	\$ 138,363	\$ 641,285
Cash basis net assets						
Restricted						
Streets				\$ 254,003	\$ -	\$ 254,003
Urban renewal purposes				124,866	-	124,866
Debt service				578	16,177	16,755
Other purposes				56,621	-	56,621
Unrestricted				66,854	122,186	189,040
Total cash basis net assets				\$ 502,922	\$ 138,363	\$ 641,285

*There were no reconciling items between the Governmental and Fiduciary Fund Statements of Cash Receipts, Disbursements and Changes in Cash Balances and the above Statement. See notes to financial statements.*

City of Monroe, Iowa  
Statement of Cash Receipts, Disbursements and Changes in Cash Balances  
Governmental Funds  
As of and for the year ended June 30, 2006

	General	Special Revenue		Benefits
		Road Use Tax	Increment	
Receipts				
Property Taxes	\$ 248,593	\$ -	\$ -	\$ 63,088
Tax Increment Financing Collections			247,939	
Licenses and Permits	10,754			
Use of Money and Property	16,678			
Intergovernmental	2,494	151,376		
Charges for Services	125,043			
Miscellaneous	20,298			3,386
Total Receipts	423,860	151,376	247,939	66,474
Disbursements				
Operating				
Public Safety	243,847			30,777
Public Works	83,614	112,915		11,954
Health and Social Services	906			-
Culture and Recreation	81,095			5,695
Community and Economic Development	8,983			-
General Government	67,588		25,000	6,588
Debt Service	-			-
Capital Projects	-			-
Total Disbursements	486,033	112,915	25,000	55,014
Excess (deficiency) of receipts over (under) disbursements	(62,173)	38,461	222,939	11,460
Other financing sources (uses)				
Bonds proceeds				
Operating transfers in				
Operating transfers out			(231,111)	
Total other financing sources (uses)	-	-	(231,111)	-
Net change in cash balances	(62,173)	38,461	(8,172)	11,460
Cash balance (deficit) - beginning of year	129,027	215,542	133,038	(19,795)
Cash balance (deficit) - end of year	\$ 66,854	\$ 254,003	\$ 124,866	\$ (8,335)
Cash basis fund balances (deficit)				
Unreserved				
Debt service	\$ -	\$ -	\$ -	\$ -
General fund	66,854			
Special revenue funds		254,003	124,866	(8,335)
Capital projects fund				
Permanent fund				
Total cash basis fund balances	\$ 66,854	\$ 254,003	\$ 124,866	\$ (8,335)

The accompanying notes to financial statements are an integral part of this statement.

Capital Projects		Debt Service	Governmental Funds	Total
2005 Street Project	The Meadows Project			
\$ -	\$ -	\$ 403	\$ 11,993	\$ 324,077
				247,939
				10,754
			2,564	19,242
			20,133	174,003
			-	125,043
			330	24,014
		403	35,020	925,072
			17,652	292,276
			4,495	212,978
			-	906
			-	86,790
			-	8,983
		800	-	99,976
		225,815	-	225,815
199,777	351,268		-	551,045
199,777	351,268	226,615	22,147	1,478,769
(199,777)	(351,268)	(226,212)	12,873	(553,697)
195,000	255,000			450,000
		226,616	4,495	231,111
				(231,111)
195,000	255,000	226,616	4,495	450,000
(4,777)	(96,268)	404	17,368	(103,697)
-		174	148,633	606,619
\$ (4,777)	\$ (96,268)	\$ 578	\$ 166,001	\$ 502,922
\$ -	\$ -	\$ 578	\$ -	\$ 578
				66,854
			1,441	371,975
(4,777)	(96,268)		51,957	(49,088)
			112,603	112,603
\$ (4,777)	\$ (96,268)	\$ 578	\$ 166,001	\$ 502,922

City of Monroe, Iowa  
Statement of Cash Receipts, Disbursements and Changes in Cash Balances  
Proprietary Funds  
As of and for the year ended June 30, 2006

	Sewer	Water	Total
Operating receipts			
Use of money and property	\$ 62	\$ 504	\$ 566
Charges for service	131,299	165,472	296,771
Miscellaneous	227	105	332
Total operating receipts	<u>131,588</u>	<u>166,081</u>	<u>297,669</u>
Operating disbursements			
Business type activities	<u>101,630</u>	<u>185,126</u>	<u>286,756</u>
Excess of operating receipts over operating disbursements	<u>29,958</u>	<u>(19,045)</u>	<u>10,913</u>
Non-operating receipts (disbursements)			
Capital Projects		(42,449)	(42,449)
Debt Service	<u>(36,097)</u>	<u>(20,023)</u>	<u>(56,120)</u>
Total non-operating receipts (disbursements)	<u>(36,097)</u>	<u>(62,472)</u>	<u>(98,569)</u>
Excess (deficiency) of receipts over (under) disbursements	<u>(6,139)</u>	<u>(81,517)</u>	<u>(87,656)</u>
Cash balances - beginning of year	76,785	149,234	226,019
Cash balances - end of year	<u>\$ 70,646</u>	<u>\$ 67,717</u>	<u>\$ 138,363</u>
Cash basis fund balances			
Reserved for debt service	\$ 16,177	\$ -	\$ 16,177
Unreserved	<u>54,469</u>	<u>67,717</u>	<u>122,186</u>
Total cash basis fund balances	<u>\$ 70,646</u>	<u>\$ 67,717</u>	<u>\$ 138,363</u>

*The accompanying notes to financial statements are an integral part of this statement.*

City of Monroe, Iowa  
Statement of Cash Receipts, Disbursements and Changes in Cash Balances  
Fiduciary Funds  
As of and for the year ended June 30, 2006

	Park Equipment	Machine Fund	Fire Dept. Equipment	Fire Association
Receipts				
Donations	\$ 12,288	\$ 30,000	\$ 7,938	\$ 12,641
Investment earnings - interest	65	45	-	-
Total receipts	<u>12,353</u>	<u>30,045</u>	<u>7,938</u>	<u>12,641</u>
Disbursements				
Operating				
Public Safety	-	-	21,653	13,045
Total disbursements	<u>-</u>	<u>-</u>	<u>21,653</u>	<u>13,045</u>
Excess of receipts over disbursements	<u>12,353</u>	<u>30,045</u>	<u>(13,715)</u>	<u>(404)</u>
Cash balance - beginning of year	-	-	15,782	22,910
Cash balance - end of year	<u>\$ 12,353</u>	<u>\$ 30,045</u>	<u>\$ 2,067</u>	<u>\$ 22,506</u>

City of Monroe, Iowa  
Notes To Financial Statements  
June 30, 2006

1/ Summary of Significant Accounting Policies

The City of Monroe is a political subdivision of the State of Iowa located in Jasper County. It was first incorporated in 1877 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a nonpartisan basis. The City provides numerous services to citizens including public safety, public works, culture, recreation, public improvements, and general administrative services.

A. Reporting Entity

For financial reporting purposes, the City of Monroe has included all funds, organizations, agencies, boards, commissions, and authorities. The City has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing board and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the City.

Jointly Governed Organizations

The City participates in several jointly governed organizations that provide goods or services to the citizenry of the City, but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by participating governments. City officials are members of the following boards and commissions: Jasper County Assessor's Conference Board, the Jasper County E-911 Joint Service Board and the Jasper County Emergency Management Commission..

The City also participates in the Jasper and Marion County Economic Development, the Safety Coalition of Central Iowa Cities Shared Services, and the Jasper County Animal Rescue League, jointly governed organizations established pursuant to Chapter 28E of the Code of Iowa.

B. Basis of Presentation

Government-wide Financial Statements - The Statement of Activities and Net Assets reports information on all of the nonfiduciary activities of the City. For the most part, the effect of interfund activity has been removed from this statement. Governmental activities, which are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for services.



B. Basis of Presentation (continued)

The Statement of Activities and Net Assets presents the City's nonfiduciary net assets. Net assets are reported in two categories:

*Restricted net assets* result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

*Unrestricted net assets* consist of net assets that do not meet the definition of the preceding category. Unrestricted net assets often have constraints on resources imposed by management, which can be removed or modified.

The Statement of Activities and Net Assets demonstrates the degree to which direct disbursements of a given function are offset by program receipts. Direct disbursements are those clearly identifiable with a specific function. Program receipts include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) grants, contributions and interest on investments restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program receipts are reported instead as general receipts.

Fund Financial Statements – Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor governmental funds.

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax receipts and other receipts not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating disbursements, the fixed charges and the capital improvement costs that are not paid from other funds.

Special Revenue:

The Road Use Tax Fund is used to account for road construction and maintenance.

The Urban Renewal Tax Increment Fund is used to account for urban renewal projects financed by tax increment financing.

The Employee Benefits Fund is used to account for the tax levy and the disbursement of benefits.

The Debt Service Fund is utilized to account for the payment of interest and principal on the City's general long-term debt.

The Capital Projects Funds are utilized to account for all resources used in the acquisition of capital facilities.

The City reports the following major proprietary funds:

The Sewer Fund accounts for the operation and maintenance of the City's waste water treatment and sanitary sewer system.

The Water Fund accounts for the operation and maintenance of the City's water system.

### C. Measurement Focus and Basis of Accounting

The City of Monroe maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles.

Proprietary funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

#### 2/ Cash and Pooled Investments

The City's deposits in banks at June 30, 2006 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The City is authorized by statute to invest public funds in obligations of the United States Government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts, and warrants or improvement certificates of a drainage district.

In addition, the City had investments in the Iowa Public Agency Investment Trust which are valued at an amortized cost of \$251,462 pursuant to Rule 2a-7 under the Investment Company Act of 1940 and are not subject to risk categorization.

Interest Rate Risk – the City's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) in instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days, but maturities shall be consistent with the needs and use of the City.

#### 3/ Bonds and Notes Payable

Annual debt service requirements for general obligation notes and revenue bonds are as follows:

Year Ending June 30,	General Obligation Bonds		Sewer Revenue Bonds		Water Revenue Bonds		Total	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2007	\$ 320,800	\$ 58,206	\$ 20,000	\$ 15,237	\$ 12,538	\$ 7,657	\$ 353,338	\$ 81,100
2008	180,000	38,828	21,000	14,377	12,919	7,280	213,919	60,485
2009	180,000	29,770	22,000	13,474	13,312	6,893	215,312	50,137
2010	185,000	20,670	23,000	12,528	13,717	6,493	221,717	39,691
2011	55,000	11,263	24,000	11,539	14,134	6,082	93,134	28,884
2012 - 2016	160,000	18,138	135,000	41,355	77,388	23,786	372,388	83,279
2017 - 2021	-	-	109,360	10,767	89,894	11,450	199,254	22,217
2021-2023	-	-	-	-	21,315	689	21,315	689
Total	\$ 1,080,800	\$ 176,875	\$ 354,360	\$ 119,277	\$ 255,217	\$ 70,330	\$ 1,690,377	\$ 366,482

3/ Bonds and Notes Payable (continued)

The resolution providing for the issuance of the sewer revenue notes include the following provisions.

- a. The bonds will only be redeemed from the future earnings of the sewer activity and the note holders hold a lien on the future earnings of the sewer fund.
- b. Sufficient monthly transfers shall be made to a separate revenue bond sinking account for the purpose of making the next bond principal and interest payments.

The City has established the sinking funds required by the above resolutions.

Urban Renewal Tax Increment Revenue Bonds

The urban renewal tax increment revenue bonds were issued for the purpose of defraying a portion of the costs of carrying out an urban renewal project of the City. The bonds are payable solely from the income and proceeds of the Urban Renewal Tax Increment Fund and the taxes to be paid into the fund in accordance with Chapter 403.19 of the Code of Iowa. The proceeds of the urban renewal tax increment revenue bonds shall be expended only for the purposes which are consistent with the plans of the City's urban renewal area. The bonds are not a general obligation of the City, however, the debt is subject to the constitutional debt limitation of the City.

4/ Pension and Retirement Benefits

The City contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits, which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa 50306-9117.

Plan members are required to contribute 3.70% of their annual salary and the City is required to contribute 5.75% of covered salary. Certain employees in special risk occupations and the City contribute an actuarially determined contribution rate. Contribution requirements are established by state statute. The City's contributions to IPERS for the year ended June 30, 2006, was \$20,052, which is equal to the required contribution for that year.

5/ Compensated Absences

City employees accumulate a limited amount of earned but unused vacation hours and sick leave for subsequent use or for payment upon termination, retirement, or death. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for these earned termination payments payable to employees at June 30, 2006, primarily relating to the General Fund, is \$110,000, of which \$15,000 is vacation and \$95,000 is sick leave.

This liability has been computed based on rates of pay as of June 30, 2006.

6/ Risk Management

The City is a member in the Iowa Communities Assurance Pool, as allowed by Chapter 670.7 of the Code of Iowa. The Iowa Communities Assurance Pool (Pool) is a local government risk-sharing pool with over 531 members from various governmental entities throughout the State of Iowa. The Pool was formed in August 1986 for the purpose of managing and funding third-party liability claims against its members. The Pool provides coverage and protection in the following categories: general liability, automobile liability,

automobile physical damage, public officials' liability, police professional liability, property, inland marine, and boiler/machinery. There have been no reductions in insurance coverage from prior years.

Each member's annual casualty contributions to the Pool fund current operations and provide capital. Annual operating contributions are those amounts necessary to fund, on a cash basis, the Pool's general and administrative expenses, claims, claims expenses and reinsurance expenses due and payable in the current year, plus all or any portion of any deficiency in capital. Capital contributions are made during the first six years of membership and are maintained to equal 300 percent of the total current members' basis rates or to comply with the requirements of any applicable regulatory authority having jurisdiction over the Pool.

The Pool also provides property coverage. Members who elect such coverage make annual operating contributions which are necessary to fund, on a cash basis, the Pool's general and administrative expenses and reinsurance premiums, all of which are due and payable in the current year, plus all or any portion of any deficiency in capital. Any year-end operating surplus is transferred to capital. Deficiencies in operations are offset by transfers from capital and if insufficient, by the subsequent year's member contributions.

The property and casualty contributions to the risk pool are recorded as disbursements from operating funds at the time of payment to the risk pool. The City's annual contributions to the Pool for the year ended June 30, 2006 were \$26,138.

The Pool uses reinsurance and excess risk-sharing agreements to reduce its exposure to large losses. The Pool retains general, automobile, police professional, and public officials' liability risks up to \$350,000 per claim. Claims exceeding \$350,000 are reinsured in an amount not to exceed \$2,650,000 per claim and \$5,000,000 in aggregate per year. For members requiring specific coverage from \$2,000,000 to \$10,000,000, such excess coverage is also reinsured. Property and automobile physical damage risks are retained by the Pool up to \$100,000 each occurrence, each location, with excess coverage reinsured on an individual basis.

The Pool's intergovernmental contract with its members provides that in the event a casualty claim or series of claims exceeds the amount of risk-sharing protection provided by the member's risk-sharing certificate, or in the event that a series of casualty claims exhausts total members' equity plus any reinsurance and any excess risk-sharing recoveries, then payment of such claims shall be the obligation of the respective individual member. As of June 30, 2006, settled claims have not exceeded the risk pool or reinsurance company coverage since the pool's inception.

Members agree to continue membership in the Pool for a period of not less than one full year. After such period, a member who has given 60 days' prior written notice may withdraw from the Pool. Upon withdrawal, payments for all claims and claims expenses become the sole responsibility of the withdrawing member, regardless of whether a claim was incurred or reported prior to the member's withdrawal. Members withdrawing within the first six years of membership may receive a partial refund of their capital contributions. If a member withdraws after the sixth year, the member is refunded 100 percent of its capital contributions; however, the refund is reduced by an amount equal to the annual operating contribution which the withdrawing member would have made for the one-year period following withdrawal.

The City also carries commercial insurance purchased from other insurers for coverage associated with employee dishonesty. The City assumes liability for any deductibles, and claims in excess of coverage limitations. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

7/ Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2006 is as follows:

	Transfer To		
	Non Major Governmental	Debt Service	Total
Transfer from			
Urban Renewal Tax Increment	\$ -	\$ 226,616	\$ 226,616
Capital Project	4,495		4,495
	<u>\$ 4,495</u>	<u>\$ 226,616</u>	<u>\$ 231,111</u>

Transfers generally move resources from the fund statutorily required to collect the resources to the fund statutorily required to disburse the resources.

8/ Deficit Fund Balances

The Capital Project Funds had deficit balances of \$4,777 and \$96,268. The deficits were a result of project expenditures being made ahead of receipts. Subsequent receipts will eliminate the deficits. The Employee Benefit Fund had a deficit balance of \$8,335 which will be eliminated by future tax levies.

9/ Use of Estimates

The preparation of financial statements requires management to make estimates and assumptions that effect the reported amounts and disclosure of liabilities, contingent liabilities, and commitments at the date of the financial statements, and the classification of receipts and disbursements during the reporting period. Actual results could differ from the estimates that were used.

10/ Construction Commitments

The City has committed to the construction of streets, water lines and sewer in the Meadows Development totaling approximately \$570,000. As of June 30, 2006, \$351,268 had been paid on the contracts. In July, the City issued \$200,000 in general obligation bonds to fund the project.

11/ Subsequent Event

Effective July 1, 2006, Jasper County will be collecting a county-wide local option sales tax to be divided by the State of Iowa on the basis of population. The City's share will be used 50% for property tax relief and 50% for infrastructure improvements.

12/      Accounting Change

Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements- and Management's Discussion and Analysis- for State and Local Governments; Statement No. 37, Basic Financial Statements- for Management's Discussion and Analysis- for State and Local Governments- Omnibus; Statement No. 38, Certain Financial Statement Note Disclosures and Statement No. 42, Budgetary Comparison Schedule- Perspective Differences were implemented for the year ended June 30, 2006. The statements create new basic financial statements for reporting the City's financial activities. The financial statements now include government-wide financial statement and fund financial statements which present information for individual major funds rather than fund type.

City of Monroe, Iowa  
 Budgetary Comparison Schedule of Receipts, Disbursements, and Changes in Balances  
 Budget and Actual (Cash Basis) - All Governmental Funds and Proprietary Funds  
 Required Supplementary Information  
 Year ended June 30, 2006

	Governmental Funds Actual	Enterprise Funds Actual
Receipts		
Property Taxes	\$ 324,077	
Tax increment financing collections	247,939	
Other city tax		
Licenses and permits	10,754	
Use of money and property	19,242	566
Intergovernmental	174,003	
Charges for Service	125,043	296,771
Miscellaneous	24,014	332
Total Receipts	<u>925,072</u>	<u>297,669</u>
Disbursements		
Public safety	292,276	
Public works	212,978	
Health and social services	906	
Culture and recreation	86,790	
Community and economic development	8,983	
General government	99,976	
Debt service	225,815	
Capital projects	551,045	
Business type activities		385,325
Total Disbursements	<u>1,478,769</u>	<u>385,325</u>
Excess (deficiency) of receipts over (under) disbursements	<u>(553,697)</u>	<u>(87,656)</u>
Other financing sources, net	<u>450,000</u>	
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	<u>(103,697)</u>	<u>(87,656)</u>
Balance - beginning of year	606,619	226,019
Balance - end of year	<u>\$ 502,922</u>	<u>\$ 138,363</u>

*See accompanying independent auditors' report.*

Budgeted Amounts				
	Net	Original	Final	Final to Net Variance
\$	324,077	\$ 311,061	\$ 311,061	\$ 13,016
	247,939	228,460	228,460	19,479
	-	10,788	10,788	(10,788)
	10,754	7,000	7,000	3,754
	19,808	12,500	12,500	7,308
	174,003	202,500	202,500	(28,497)
	421,814	406,250	406,250	15,564
	24,346	3,000	3,000	21,346
\$	1,222,741	1,181,559	1,181,559	41,182
	292,276	192,377	292,377	101
	212,978	226,625	226,625	13,647
	906	1,200	1,200	294
	86,790	88,985	88,985	2,195
	8,983	3,000	38,000	29,017
	99,976	127,380	127,380	27,404
	225,815	-	228,460	2,645
	551,045	150,000	675,000	123,955
	385,325	419,832	419,832	34,507
	1,864,094	1,209,399	2,097,859	233,765
	(641,353)	(27,840)	(916,300)	274,947
	450,000	-	250,540	(199,460)
	(191,353)	(27,840)	(665,760)	474,407
	832,638	974,738	974,738	(142,100)
\$	641,285	\$ 946,898	\$ 308,978	\$ 332,307



City of Monroe, Iowa  
Notes to Required Supplementary Information – Budgetary Reporting  
June 30, 2006

The budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds except Fiduciary Funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon ten major classes of disbursements known as functions, not by fund. These ten functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, business type activities and non-program. Function disbursements required to be budgeted include disbursements for the General Fund, Special Revenue Funds, Debt Service Fund, Capital Projects Funds and Proprietary Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, one budget amendment increased budgeted disbursements by \$888,460. The budget amendments are reflected in the final budgeted amounts.

City of Monroe, Iowa  
Statement of Cash Receipts, Disbursements, and Changes in Cash Balances  
Nonmajor Governmental Funds  
As of and for the year ended June 30, 2006

	Special Revenue		Capital Projects		Permanent		
	Drug Task Force	Rural Fire	Malone	Capital Improvement	Cemetery Perpetual Care		Total
Receipts							
Property tax	\$ -	\$ -	\$ -	\$ 11,993	\$ -	\$	11,993
Use of money and property					2,564		2,564
Intergovernmental	3,971	16,162					20,133
Miscellaneous					330		330
Total Receipts	3,971	16,162	-	11,993	2,894		35,020
Disbursements							
Operating							
Public safety	2,530	15,122			-		17,652
Public works			4,495		-		4,495
Total Disbursements	2,530	15,122	4,495	-	-		22,147
Excess (deficiency) of receipts over disbursements	1,441	1,040	(4,495)	11,993	2,894		12,873
Other financing uses							
Operating transfers in			4,495				4,495
Net change in cash balances	1,441	1,040	-	11,993	2,894		17,368
Cash balance (deficit) - beginning of year	-	11,811	6,452	20,661	109,709		148,633
Cash balance (deficit) - end of year	\$ 1,441	\$ 12,851	\$ 6,452	\$ 32,654	\$ 112,603	\$	166,001
Cash basis fund balances							
Unreserved							
Special revenue funds	1,441						1,441
Capital project fund		12,851	6,452	32,654			51,957
Permanent fund					112,603		112,603
Total cash basis fund balances	\$ 1,441	\$ 12,851	\$ 6,452	\$ 32,654	\$ 112,603	\$	166,001

See accompanying independent auditors' report.

City of Monroe, Iowa  
Schedule of Indebtedness  
For the year ended June 30, 2006

	Date of Issue	Interest Rates	Amount Originally Issued
<b>General Obligation Bonds</b>			
1996 General Obligation Water/Sewer	September 1, 1996	4.65 - 4.7%	\$ 410,000
2000 General Obligation Water/Sewer	June 1, 2000	4.75 - 5.3%	900,000
1997 Urban Renewal Tax Increment Revenue Bonds	June 24, 1997	9.00%	200,000
Malone Development	March 6, 2003	4.875%	300,000
General Obligation Street Improvement	October 24, 2005	5.50%	250,000
General Obligation Street Improvement	October 24, 2005	4.50%	200,000
<b>Revenue Bonds</b>			
Sewer Revenue Bonds	July 9, 2001	4.30%	520,000
Water Revenue Bonds	July 1, 2002	3.00%	300,861

*See accompanying independent auditor's report.*

Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid	Interest Due and Unpaid
\$ 100,000	\$ -	\$ 50,000	50,000	\$ 4,700	\$ -
415,000	-	75,000	340,000	21,598	-
59,005	-	28,205	30,800	4,690	-
240,000	-	30,000	210,000	11,623	-
-	250,000	-	250,000	-	2,175
-	200,000	-	200,000	-	3,323
<hr/>					
\$ 814,005	\$ 450,000	\$ 183,205	\$ 1,080,800	\$ 42,611	\$ 5,498
<hr/>					
\$ 374,360	\$ -	\$ 20,000	\$ 354,360	\$ 16,097	\$ -
267,385	-	12,168	255,217	7,855	-
<hr/>					
\$ 641,745	\$ -	\$ 32,168	\$ 609,577	\$ 23,952	\$ -
<hr/>					

City of Monroe, Iowa  
Bond and Note Maturities  
June 30, 2006

		1996 General Obligation Water/Sewer			2000 General Obligation Water/Sewer			1997 Urban Renewal Tax Increment Revenue Bond			Malone Development
		Issued September 1, 1996				Issued June 1, 2000		Issued June 24, 1997		Issued March 6, 2003	
Year Ending	Interest Rates			Interest Rates					Interest Rates		
June 30,	(%)	Amount		(%)	Amount		(%)	Amount	(%)	Amount	
2007	4.70	\$ 50,000		5.15	\$ 80,000		9.00	\$ 30,800	4.875	\$ 30,000	
2008				5.20	85,000				4.875	30,000	
2009				5.25	85,000				4.875	30,000	
2010				5.30	90,000				4.875	30,000	
2011									4.875	30,000	
2012									4.875	30,000	
2013									4.875	30,000	
2014											
2015											
Totals		<u>\$ 50,000</u>			<u>\$ 340,000</u>			<u>\$ 30,800</u>		<u>\$ 210,000</u>	

		General Obligation Street Improvement			General Obligation Street Improvement		
		Issued October 24, 2005				Issued October 24, 2005	
Year Ending	Interest Rates			Interest Rates			Total
June 30,	(%)	Amount		(%)	Amount		
2007	5.50	\$ 50,000		4.50	\$ 80,000		\$ 320,800
2008	5.50	25,000		4.50	40,000		180,000
2009	5.50	25,000		4.50	40,000		180,000
2010	5.50	25,000		4.50	40,000		185,000
2011	5.50	25,000					55,000
2012	5.50	25,000					55,000
2013	5.50	25,000					55,000
2014	5.50	25,000					25,000
2015	5.50	25,000					25,000
Totals		<u>\$ 250,000</u>			<u>\$ 200,000</u>		<u>\$ 1,080,800</u>

Sewer Revenue Bonds			Water Revenue Bonds		
Issued July 9, 2001			Issued July 1, 2002		
Year Ending	Interest Rates		Interest Rates		Total
June 30,	(%)	Amount	(%)	Amount	
2007	4.30	20,000	3.00	12,538	32,538
2008	4.30	21,000	3.00	12,919	33,919
2009	4.30	22,000	3.00	13,312	35,312
2010	4.30	23,000	3.00	13,717	36,717
2011	4.30	24,000	3.00	14,134	38,134
2012	4.30	25,000	3.00	14,564	39,564
2013	4.30	26,000	3.00	15,007	41,007
2014	4.30	27,000	3.00	15,464	42,464
2015	4.30	28,000	3.00	15,934	43,934
2016	4.30	29,000	3.00	16,419	45,419
2017	4.30	30,000	3.00	16,918	46,918
2018	4.30	32,000	3.00	17,432	49,432
2019	4.30	33,000	3.00	17,963	50,963
2020	4.30	14,360	3.00	18,509	32,869
2021			3.00	19,072	19,072
2022			3.00	19,652	19,652
2023			3.00	1,663	1,663
Totals		<u>\$ 354,360</u>		<u>\$ 255,217</u>	<u>\$ 609,577</u>

# POLLARD AND COMPANY P.C.

## CERTIFIED PUBLIC ACCOUNTANTS

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CERTIFIED PUBLIC ACCOUNTANTS  
PRIVATE COMPANIES PRACTICE SECTION  
IOWA SOCIETY OF  
CERTIFIED PUBLIC ACCOUNTANTS

### INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING

To the Honorable Mayor and  
Members of the City Council

We have audited the financial statements of the City of Monroe, Iowa as of and for the year ended June 30, 2006, and have issued our report as dated below. Our report expressed an unqualified opinion on the financial statements which were prepared in conformity with an other comprehensive basis of accounting. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

#### Compliance

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2006 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

#### Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the City's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in Part I of the accompanying Schedule of Findings.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe all of the reportable conditions described in the Schedule of Findings are material weaknesses. All prior year reportable conditions have been resolved except as discussed in I-A-06 and I-B-06.

This report, a matter of public record by law, is intended solely for the information and use of the officials, employees and citizens of the City and other parties to whom the City may report. This report is not intended to be and should not be used by anyone other than these specified parties.

August 3, 2006

*Pollard and Company P.C.*



CITY OF MONROE, IOWA  
SCHEDULE OF FINDINGS  
YEAR ENDED JUNE 30, 2006

PART I: Findings Related to the Financial Statements

REPORTABLE CONDITIONS

I-A-06 Segregation of Duties

One important aspect of internal accounting control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. We noted that generally one person has control over each of the following areas:

- 1) Opening mail, collecting at City Hall, listing cash receipts, posting to computer, bank deposits, and bank account reconciliations.
- 2) Payroll preparation, posting to computer and distribution.

Recommendation

We realize that with a limited number of office employees, segregation of duties is difficult. The City should continue to review its operating procedures to obtain the maximum internal control possible under the circumstances.

Response

We will continue to review the internal control procedures and segregate duties to the extent possible.

Conclusion

Response accepted.

I-B-06 Reconciliation of Utility Billings, Collections and Delinquencies

Utility billings, collections and delinquent accounts were not reconciled.

Recommendation

Procedures should be established to reconcile utility billings, collections and monitor delinquencies and provide for review by someone independent of utility processing.

Response

In July 2006, began process after computer software provider worked with City Clerk to establish procedures.

Conclusion

Response accepted.

PART II Other Findings Related to Statutory Reporting

II-A-06 Certified Budget

Disbursements during the year ended June 30, 2006 did not exceed the amounts budgeted.

II-B-06 Questionable Disbursements

We noted no disbursements for parties, banquets or other entertainment expenses that do not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.

II-C-06 Travel Expense

No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

II-D-06 Business Transactions

Business transactions between the City and City officials are detailed as follows:

Name, Title and Business Connection	Transaction Description	Amount
Bruce Aalbers, Former Council Member, Electrician	Supplies	\$1,134
Gerald Malone, Council Member, Malone Motors	Supplies	330

In accordance with Chapter 362.5(11) of the Code of Iowa, the transactions with the Council Member do not appear to represent conflicts of interest since total transactions with each individual were less than \$2,500 during the fiscal year.

II-E-06 Bond Coverage

Surety bond coverage of City officials and employees is in accordance with statutory provisions.

II-F-06 Council Minutes

No transactions were found that we believe should have been approved in the Council minutes but were not.

II-G-06 Deposits and Investments

No instances of non-compliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the City's investment policy were noted.